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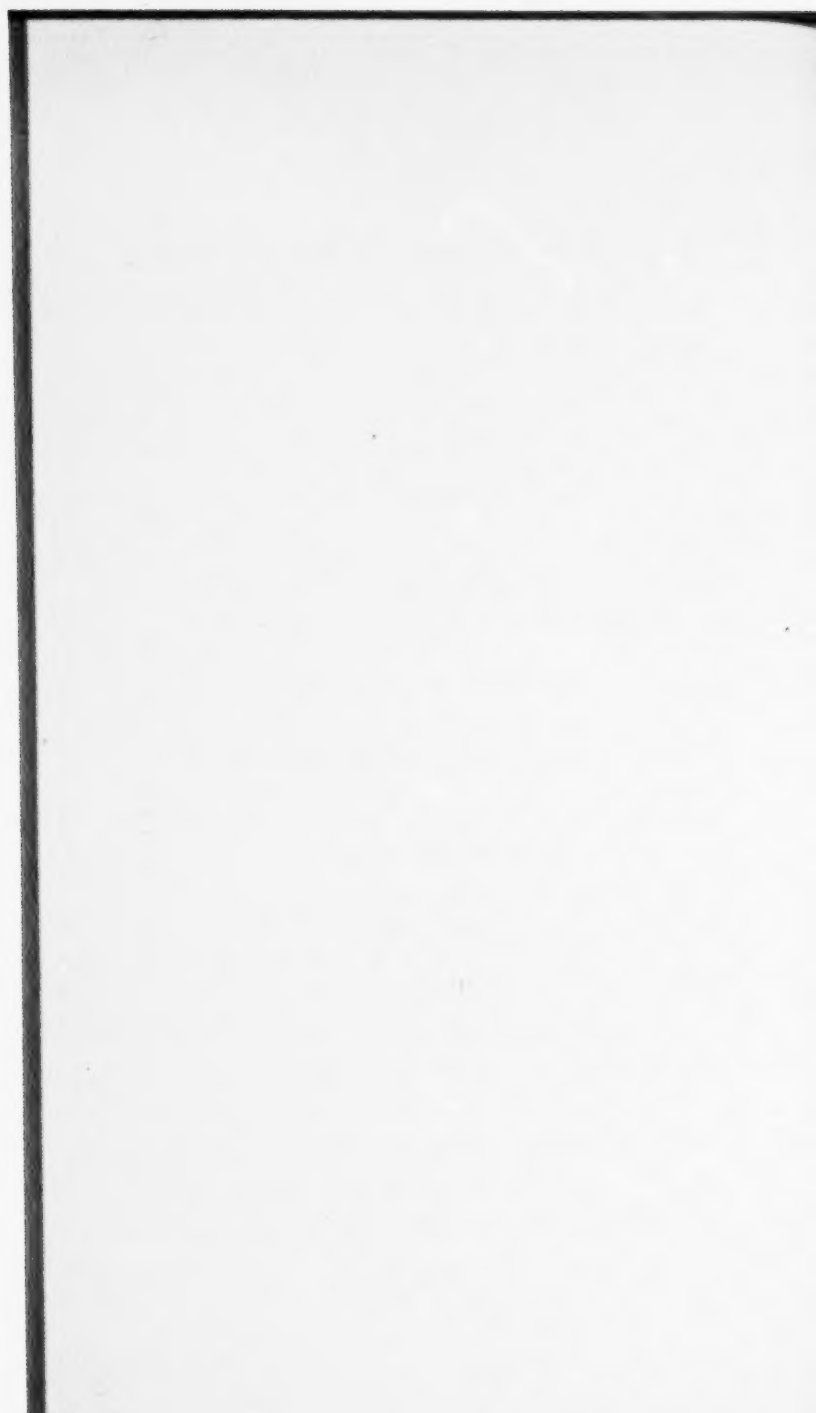
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# In the Supreme Court of the United States

OCTOBER TERM, 1926

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No. 142

DEFOREST RADIO TELEPHONE AND TELEGRAPH  
Company, Appellant

v.

THE UNITED STATES

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*APPEAL FROM THE COURT OF CLAIMS*

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**BRIEF ON BEHALF OF THE UNITED STATES**

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## **OPINION**

The opinion below (R. 12-14) is reported in 59 Ct. Cls. 914.

## **JURISDICTION**

The judgment to be reviewed was entered on May 4, 1925. (R. 15.) The petition for appeal was filed on May 16, 1925. (R. 15.) The jurisdiction of this Court is invoked under Sections 242 and 243 of the Judicial Code as they stood prior to the effective date of the Act of February 13, 1925. (Chap. 229, 43 Stat. 936.)

**THE QUESTION**

Was the use of patents for the United States under the circumstances alleged in the petition filed in the Court of Claims a use without license, or without lawful right to use, so as to give rise to a cause of action under the Act of June 25, 1910 (Chap. 423, 36 Stat. 851), as amended by the Act of July 1, 1918 (Chap. 114, 40 Stat. 704, 705)?

Did the facts set out in the petition filed in the Court of Claims show the granting of a license, permission and lawful right to the United States to use such patents?

**STATEMENT**

The Court of Claims sustained a demurrer to the petition in this case which sought to recover for an alleged unlawful use by the United States of certain patents which appellant claimed to own, concerning vacuum tubes or audions, used in radio communication.

The suit is brought under the Act of June 25, 1910, (Chap. 423, 36 Stat. 851) as amended by the Act of July 1, 1918 (Chap. 114, 40 Stat. 704, 705). The pertinent portions of the Act of June 25, 1910 (Chap. 423, 36 Stat. 851) are as follows:

That whenever an invention described in and covered by a patent of the United States shall hereafter be used by the United States without license of the owner thereof or lawful right to use the same, such owner may recover reasonable compensation for such

use by suit in the Court of Claims: \* \* \*  
*Provided further*, That in any such suit the United States may avail itself of any and all defenses, general or special, which might be pleaded by a defendant in an action for infringement, as set forth in Title Sixty of the Revised Statutes, or otherwise \* \* \*.

The pertinent portions of the Act of July 1, 1918, (Chap. 114, 40 Stat. 704, 705), amending the Act of June 25, 1910, are as follows:

That whenever an invention described in and covered by a patent of the United States shall hereafter be used or manufactured by or for the United States without license of the owner thereof or lawful right to use or manufacture the same, such owner's remedy shall be by suit against the United States in the Court of Claims for the recovery of his reasonable and entire compensation for such use and manufacture: \* \* \* *Provided further*, That in any such suit the United States may avail itself of any and all defenses, general or special, that might be pleaded by a defendant in an action for infringement as set forth in Title Sixty of the Revised Statutes, or otherwise \* \* \*.

The two patents involved in the suit were granted to Lee DeForest (R. 1), and by duly recorded assignments the entire rights, title, and interest in and to the same were transferred to appellant (R. 1). On March 16, 1917, appellant executed and delivered to the Western Electric Company a writ-

ten instrument conveying certain rights in said patents, all of which rights were, on May 24, 1917, assigned and conveyed by the Western Electric Company to the American Telephone and Telegraph Company. (R. 3.) This instrument executed by appellant to the Western Electric Company is set out as an exhibit to the petition. (R. 6-11.) It recites that the appellant represents that it owns and controls the entire right, title, and interest (subject to certain exceptions not here material) in and to the patents here involved, and that in consideration of One Dollar and other good and valuable considerations appellant—

on behalf of itself and its successors, legal representatives and assigns, grants and agrees to grant to the Western Company, a license (free of royalties or other payments other than those herein specified) to make, use, install, operate and lease, and to sell or otherwise dispose of to others for sale, installation and operation, apparatus and systems embodying or made or operating in accordance with the following inventions:

enumerating among many others the patents here involved (R. 6, 7). It further provided that said license was granted

for the full terms of the said patents granted or to be granted, and the license is granted for all transferable rights of said De Forest Company of any kind or nature whatsoever in said inventions, patents and applications,

except the rights hereinafter expressly reserved to itself by the De Forest Company. The said license granted and to be granted to the Western Company is exclusive except for the aforesaid rights now held by the American Telephone and Telegraph Company and except for the rights expressly reserved herein by the De Forest Company. (R. 7.)

The instrument further provided that the appellant reserves to itself the following rights (R. 7):

(1) Nonexclusive, assignable rights to make, use and sell for the synthetic production of music under such of the patents and applications of Schedules A and B as were filed prior to August 14, 1914;

which includes the patents here involved. Subdivisions (2) and (3) of the contract do not relate to the patents here concerned. (Appellant's Brief, p. 7.)

(4) Nonexclusive, nontransferable, personal rights with respect to radio communication, under all the patents, applications and inventions included in this agreement, for the following purposes only:

(a) To make for and sell to the United States Government for its use (R. 8) \* \* \*.

Subparagraphs (b) to (g), inclusive, reserve the right to make for and sell to other classes of users and to make and use for the reproduction of news and music and are not material here. (R. 8.)

Paragraph IV of the written instrument provided that—

It is understood and agreed that, except with respect to apparatus furnished to the United States Government [and to others not here material] no apparatus shall be sold or leased by the DeForest Company under its reserved rights, except upon written agreement by the purchaser or lessee, as the case may be, that neither said apparatus as a whole nor any part thereof shall be used in the commercial transmission or reception of messages for pay, or used by others than the original purchaser or lessee, or used for any purposes other than radio communication. (R. 8.)

Paragraph VII of this instrument provided that (R. 9):

It is understood and agreed that the Western Company, its successors, legal representatives and assigns, and the DeForest Company, may, respectively, institute and conduct suits against others for infringement of any of said patents within the fields in which it possesses rights, but all of such suits shall be conducted at the expense of the party bringing them, which party shall be entitled to retain any judgment recovered in any such suits.

Paragraph XII of this instrument further provides that (R. 10):

It is understood and agreed that the Western Company, its successors and assigns may



transfer to others, in whole or in part, the rights granted by this instrument, and may assign rights hereunder, or grant licenses to various persons, firms or corporations for the several uses to which the inventions are applicable.

Lee DeForest, both as an individual and as a director and stockholder of the Company, executed at the foot of the written instrument an approval, ratification and confirmation of the same. (R. 11.)

The petition further alleges that the United States informed the American Telephone and Telegraph Company that—

being then engaged in war, it desired to have large numbers of said audions manufactured promptly for it by said General Electric Company and others, whereupon said American Telephone and Telegraph Company advised the United States, by writing to the Chief Signal Officer of the Army on or about September 21, 1917, to the effect that it would not do anything to interfere with the immediate manufacture of said audions for the United States by said General Electric Company and other manufacturers provided it were understood and agreed that said American Telephone and Telegraph Company waived none of its claims under any patents or patent rights owned by it, on account of said manufacture, and that all claims under patent rights and all patent question be reserved and later investigated, adjusted and settled by the United States; and said plan

was accepted by the United States and the orders aforesaid for said audions were thereafter given by the United States to said General Electric Company and said Moorhead Laboratories, Inc., respectively and said audions were manufactured by said General Electric Company and said Moorhead Laboratories, Inc., respectively, and delivered to the United States in pursuance of said plan. (R. 3, 4.)

It is further alleged:

That, for the purpose of assisting the United States to obtain said audions promptly pursuant to the orders given by the United States therefor, said American Telephone and Telegraph Company furnished information, drawings and blueprints to said General Electric Company and permitted representatives and experts of the United States and of said General Electric Company to witness and study the manufacture of said audions by it, American Telephone and Telegraph Company, all to the end that said audions might be the more promptly manufactured and delivered to the United States for use in the war in which it was then engaged. (R. 4.)

After the manufacture and delivery of these audions to the United States, and after the filing of the petition in this suit, negotiations were instituted between the United States and the Telephone Company, and said Company

made, executed and delivered to the United States an instrument in writing expressly

waiving and relinquishing all claims, both against the United States and all manufacturers acting under orders of the United States, for compensation for the manufacture and use of all apparatus covered by the two patents aforesaid and said waiver was stated to include all claims which have arisen or which may hereafter arise, for royalties, damages, profits or compensation for infringement of any or all letters patent owned or controlled by the American Telephone and Telegraph Company, whether expressly recited herein or not, for said manufacture and/or use prior hereto and for use by the United States occurring hereafter. (R. 4.)

The petition then alleges that the Telephone Company did not become the owner of the patents by virtue of the instrument and that the settlement by the Telephone Company subsequent to the filing of the petition in this case did not deprive appellant of its rights (R. 4), and that the use by the Government or for the Government above set forth was an infringement of the patents involved and of the rights of the petitioner which it reserved and never parted with (R. 5). It then alleges that appellant has been damaged in the sum of \$2,000,000 and that appellant and its licensees have at all times been ready, able, and willing to furnish the United States with all the devices covered by the patents at a reasonable

price (R. 5), and that upon learning of this alleged infringement by the United States appellant notified and warned the Government to desist, but the Government continued such alleged infringement.

The Court of Claims, in sustaining the demurrer to this petition, held that the Government was licensed by the Telephone Company to do the acts which it did, and that the Telephone Company had authority to grant such a license, and that any use which the Government made of the patents here involved was not unlawful or without right, and that for this reason appellant had stated no case in its petition and same should be and was dismissed.

#### **SUMMARY OF ARGUMENT**

The facts show the granting of a license, permission, and lawful right to the United States to use the patents here involved. The use of the patents here complained of was under a license, permission and lawful right granted by appellant's assignee and therefore appellant has no right to maintain this suit.

#### **ARGUMENT**

The principal question to be determined in this case is whether the facts alleged in the petition show the granting of a license or other lawful right to the United States to use and have manufactured for them the inventions covered by the two patents here involved.

Upon the demurrer no question as to the validity of the patents was raised, and no question was

raised as to whether the audions or vacuum tubes manufactured for the Government were covered by the patents.

The appellant in its brief does not urge that the Telephone Company did not have authority and right to grant a license or permission to the United States to have these audions manufactured. The license by appellant to the Telephone Company expressly grants to the Telephone Company such right (see Paragraph XII, R. 10). It contends, however, that what the Telephone Company did can not be construed to be such a license or permission. The Government contends that the Telephone Company did license this use by and manufacture for the United States and that whether such action be construed as a license, it is such permission by the Telephone Company for the use and manufacture here involved as to constitute a lawful right to such use of these patents. The statute authorizing the bringing of such suits provides that the use or manufacture must be "without license of the owner thereof *or lawful right to use or manufacture,*" by the Government.

To constitute a license no certain form, either of words or of the instrument, is necessary. As has been said in appellant's brief, "it may be either express or implied, oral or in writing" (Appellant's Brief 10).

A patent right, as has been decided by the courts and as stated in appellant's brief "is nothing more

nor less than the right of exclusion" (Appellant's Brief 10); that is, the right to exclude others from the use of the invention covered by the patent. This Court has decided that "A license is not an assignment of any interest in the patent. It is a mere permission granted by the patentee. It may be a license to make, sell and use, or it may be limited to any one of these separable rights. If it be a license to use it operates only as a right to use without being liable as an infringer. If a licensee be sued, he can escape liability to the patentee for the use of his invention by showing that the use is within his license. But if his use be one prohibited by the license, the latter is of no avail as a defense. As a license passes no interest in the monopoly, it has been described as a mere waiver of the right to sue by the patentee." (*Henry v. Dick*, 224 U. S. 1, 24.) And, as appellant concedes in its brief, this permission may be granted either for value or gratuitously (Appellant's Brief 10).

When the Government wanted to have these audions manufactured, it first took up with the Telephone Company which had the right to license and permit this manufacture the question of the use of these inventions. The Telephone Company said, Go ahead, we will not interfere, provided that it is understood and agreed that we do not waive any of our claims under any patents or patent rights, and that all such claims be reserved and later investigated, adjusted and settled by the

United States. And thereafter the Government did proceed, relying upon this assurance, license, grant, and permission. At that time (September, 1917), which was before the Amendment of July 1, 1918, the Federal courts were granting injunctions against unauthorized use or manufacture under patents by Government contractors (see *Cramp & Sons v. Curtis Turbine Co.*, 246 U. S. 28.)

The Government contends that this constituted an agreement, a license, and a permission by the Telephone Company that the Government might use these patents in so far as necessary for this manufacture, and that after the manufacture had occurred, the whole transaction would be investigated and if the articles manufactured were covered by the patents (none of the claims of which patents were waived) that the question of compensation would then be settled and the Government should pay the reasonable value of the use of such patents. In other words it was a permission and a license to use these patents, and the question of the amount to be paid, if any, was reserved for later determination by the parties. If they could not agree there was an implied promise that the Government would pay the reasonable value. This alone, we submit, is sufficient to take away any right by appellant to maintain this suit. It constitutes a license for this manufacture for the Government, and it constitutes such permission as to make the use of these patents a use

with lawful right. It was not a use "without license of the owner thereof or lawful right to use or manufacture the same," as provided in the statute as a necessary condition before appellant has any right to maintain this suit.

The subsequent acts of the parties in and of themselves constitute a license and permission to use these patents, and indicate the intention of the parties that the original transaction between the Government and the Telephone Company above discussed amounted to a license and permission. The facts show that when the Government was ready to have these audions manufactured for it, in accordance with the understanding with the Telephone Company that it would not interfere, it proceeded to do so, and that the Telephone Company then, for the purpose of assisting in the production of these audions, furnished information, drawings, and blue prints to the company manufacturing the same and permitted the representatives and experts of the Government and of said company manufacturing these audions to witness and study the manufacture of said audions by the Telephone Company; all to the end that the audions for the Government might be more promptly manufactured and delivered. Had it not been the intention of the Telephone Company to grant a license and permission to the Government to have these audions manufactured under such patents, it would not have done these things. These facts



alone, if there was any doubt as to the original acts of the parties, conclusively confirm the contention that the parties intended that this use of these patents was licensed and with the permission of the Telephone Company.

But, eliminating the original consent of the Telephone Company, the furnishing of this information, drawings, etc., and the assistance given in the production of these audions in and of itself constitutes a license and permission under the law which makes such use lawful and takes away any right of appellant to maintain its suit herein. It has long been the settled law, not doubted or disputed, that these acts preclude infringement and make such use lawful. Whatever right there is to recover compensation in cases of such permissive use where the compensation is not agreed upon rests upon an implied contract and not upon infringement or unlawful use. (*United States v. Palmer*, 128 U. S. 262; *Dodge Manufacturing Co. v. Puster*, 42 Fed. 54; *Cline v. Horton*, 274 Fed. 728; *Walker on Patents*, Fifth Ed., Section 312).

Appellant contends that although it did grant rights to the Telephone Company's assignor, it never parted with the right to exclude others from manufacturing for the United States. Appellant says the license granted to the Telephone Company is nonexclusive, and that the reservation made by appellant to make and sell to the United States is not exclusive, but that by Article VII of the license

to the Telephone Company it (appellant) reserved the right to exclude others from manufacturing for the United States.

The license to the Telephone Company's assignor did reserve rights to appellant to make and sell to the United States. The agreement expressly provides that these rights are "non-exclusive, non-transferable, personal rights." (R. 8.) On the other hand the agreement clearly gives the Telephone Company the right to manufacture for and sell to the United States, and expressly provides that such Company "may transfer to others, in whole or in part, the rights granted by this instrument, and may assign rights hereunder, or grant licenses to various persons, firms or corporations for the several uses to which the inventions are applicable." (R. 10.)

Article VII of this agreement provides that either the appellant or the Telephone Company "may, respectively, institute and conduct suits against others for infringement of any of said patents within the fields in which it possesses rights, but all of such suits shall be conducted at the expense of the party bringing them, which party shall be entitled to retain any judgment recovered in any such suits. (R. 9.)

In the first place the acts complained of here were not infringements at all, as they were done under a license and permission granted by the Telephone Company. It is further submitted that this provision of the contract (Article VII) means

nothing more than that if there was a use of these patents by some one not duly authorized by the Telephone Company and such use was in a field retained to appellant, then appellant might maintain a suit. It did not mean that appellant could sue for a use duly authorized by the Telephone Company. The appellant itself could not authorize a use by or for the Government. The Telephone Company could and did authorize such use, and the appellant granted the right and authority to the Telephone Company to authorize such use. Had appellant owned an exclusive right, the case might be different, but it owned no such right.

To permit appellant to maintain this suit would render meaningless and without effect the provisions of the agreement authorizing the Telephone Company to grant licenses and permission to others to use said patents.

For the reasons above set forth, it is respectfully submitted that the judgment of the Court of Claims is correct and should be affirmed.

Respectfully submitted,

WILLIAM D. MITCHELL,  
*Solicitor General.*

HERMAN J. GALLOWAY,  
*Assistant Attorney General.*

JANUARY, 1927.